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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION

WESTLAKE SERVICES, LLC d/b/a
WESTLAKE FINANCIAL
SERVICES; and NOWCOM
CORPORATION,

Plaintiffs,

vs.

CREDIT ACCEPTANCE
CORPORATION,

Defendant.

Case No. 2:15-cv-07490 SJO (MRWx)

**PLAINTIFF WESTLAKE
SERVICES, LLC'S NOTICE OF
MOTION AND MOTION IN
LIMINE NO. 1 TO PREVENT
DEFENDANT CREDIT
ACCEPTANCE CORPORATION
FROM INTRODUCING
ARGUMENT AND EVIDENCE
RELATING TO ITS STATE OF
MIND**

Date: December 5, 2017

Time: 8:30 a.m.

Crtrm.: 10C

Honorable S. James Otero

Complaint Filed: September 24, 2015

1 **TO ALL PARTIES AND THEIR COUNSEL OF RECORD:**

2 **PLEASE TAKE NOTICE** that, on December 5, 2017, at 8:30 a.m., or as
3 soon thereafter as counsel may be heard in the Courtroom of the Honorable S. James
4 Otero, United States District Judge, Central District of California, located at 350 W.
5 1st Street, Los Angeles, CA 90012, Plaintiff Westlake Services, LLC will and
6 hereby does move to prevent Defendant Credit Acceptance Corp. (“CAC”) from
7 affirmatively presenting arguments and evidence relating to its state of mind.

8 This Motion is based on this Notice of Motion and Motion, the Memorandum
9 of Points and Authorities in support thereof, the Declaration of Timothy B. Yoo and
10 exhibits appended thereto, the [Proposed] Order lodged herewith, the Court file, and
11 any further evidence and argument as may be presented to the Court prior to or at
12 the hearing on this Motion, or subsequent hereto as permitted by the Court.

13 This Motion is made following the conference of counsel pursuant to Local
14 Rule 7-3 which took place on October 24, 2017.

15
16 DATED: October 31, 2017 Bird, Marella, Boxer, Wolpert, Nessim,
17 Drooks, Lincenberg & Rhow, P.C.

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19 By: /s/ Ray S. Seilie
20 Ray S. Seilie
21 Attorneys for Plaintiff WESTLAKE
22 SERVICES, LLC d/b/a WESTLAKE
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1 **I. INTRODUCTION**

2 It is black-letter law that a party may not use the attorney-client privilege as
3 both a sword and a shield. Yet that is exactly what Defendant Credit Acceptance
4 Corporation (“CAC”) is attempting to do here. Throughout discovery, CAC asserted
5 the privilege defensively, preventing Westlake from pursuing complete discovery
6 concerning its central allegation that CAC intended to defraud the U.S. Patent and
7 Trademark Office (“PTO”) when it omitted key information from its application for
8 the ’807 Patent. Yet CAC now has made clear that it intends to pursue affirmative
9 arguments and present evidence concerning its state of mind regarding the ’807
10 Patent application.

11 The Court should not permit CAC to do this. Since CAC made the strategic
12 decision to shield a matter from discovery by invoking the privilege, it can no longer
13 selectively introduce evidence related to that matter at trial. Here, CAC blocked all
14 discovery on what it understood to be its legal obligations concerning its application
15 for the ’807 Patent. It cannot now defend itself by relying on arguments and
16 evidence that suggest its understandings were innocent. That is especially critical
17 here, where CAC’s privilege log *confirms* that it received legal advice that informed
18 its understanding about the validity of the ’807 Patent—legal advice that remains
19 concealed. The Court should not permit CAC to argue, present evidence, or
20 otherwise suggest to the jury that it believed it was in full compliance with all of its
21 obligations to the USPTO.

22 **II. BACKGROUND**

23 The key facts at the heart of this motion are undisputed. The parties agree that
24 the CAPS program embodied the ’807 Patent and that, by the middle of 2000,
25 several dealers were using CAPS to finance real transactions. (Doc. No. 225-3 at ¶¶
26 209, 215). The parties do not dispute that CAC employees never discussed patenting
27 CAPS until late 2001. (*Id.* at ¶ 221). The parties do not dispute that, in November
28 2001, CAC executives communicated with legal counsel “regarding the less than

1 one-year old requirement for patent protection.” (Doc. No. 225-3 ¶ 222).¹ And the
2 parties do not dispute that, in the ’807 Patent application, CAC did not disclose its
3 pre-2001 activities involving CAPS. (*Id.* at ¶¶ 230, 232).

4 But these undisputed facts raise a number of questions which, to date, remain
5 unanswered because of CAC’s assertion of privilege: What exactly did legal counsel
6 tell CAC about whether it could seek a patent for CAPS, given its activities with that
7 program more than one year before that conversation? What was CAC told about its
8 obligation to disclose those programs to the USPTO as part of its application? Why
9 did it decide not to reveal its pre-2001 uses of CAPS to the PTO? CAC has avoided
10 answering these critical questions by insisting that it will not rely on any defenses
11 that would require a defense of privilege and also successfully opposing Westlake’s
12 motion to compel production of those documents.

13 Despite its insistence that it would not pursue arguments that would require a
14 privilege waiver, it is now clear that CAC still intends to make arguments and
15 introduce affirmative evidence about its state of mind—a state of mind that was
16 undisputedly influenced by attorney advice that has concealed. In its memorandum
17 of contentions of law and fact, CAC has indicated its intent to argue that it should
18 not be found liable for *Walker Process* fraud in part because “Credit Acceptance
19 employees—who had no prior patent experience—verified when the experimental
20 pilot test phase ended and when the invention was first sold or publicly used, and
21 then worked diligently to make sure the patent application was filed within one year
22 of the first sale, offer for sale, or public use.” (Doc. No. 228 at 10).

23 This is a 180 degree turn from the position it took during discovery. CAC
24 cannot be permitted to present evidence that its employees had an idea about “when
25 _____

26 ¹ CAC executives also received attorney advice concerning, inter alia, “when the ‘Patent-
27 System’ was offered for sale, the development of the system, and the patent application
28 process” and “acquiring a patent on Credit Acceptance’s ‘Guaranteed Credit Approval
System (System).’” (Doc. No. 200-8 Ex. 53 at 1).

1 the invention was first sold or publicly used” and “worked diligently to make sure
 2 the patent application was filed within one year of the first sale, offer for sale, or
 3 public use,” when it has, throughout discovery, deprived Westlake of the evidence it
 4 needed to determine exactly *what* CAC knew about when the “first sale, offer for
 5 sale, or public use” took place and *why* it believed the pre-2001 uses of CAPS were
 6 “experimental” and could be concealed from the PTO. Having refused to reveal
 7 what its lawyers told its executives while preparing the ’807 Patent application,
 8 CAC should not be permitted to play innocent and suggest at trial that its employees
 9 *had no idea* that they should have disclosed pre-2001 uses of CAPS to the PTO. The
 10 Court should therefore issue an order prohibiting CAC from affirmatively presenting
 11 evidence or making arguments that amount to a “good faith” defense in substance.

12 **III. ARGUMENT**

13 **A. Because It Has Not Waived Privilege, CAC Should Not Be**

14 **Permitted to Make Affirmative Arguments About Its State of Mind**

15 Now that CAC has effectively prevented inquiry into what it understood
 16 about its obligations to the PTO, the Court should not permit CAC to take advantage
 17 of its exclusive control of its understanding by presenting only a partial picture of its
 18 subjective knowledge to the jury. While CAC has the right to deny Westlake’s
 19 arguments about its subjective intent in connection with its *Walker Process* and
 20 sham litigation claims, CAC should not be permitted to introduce *affirmative*
 21 evidence of its subjective knowledge or otherwise affirmatively suggest that it
 22 believed it was complying with its disclosure obligations to the PTO.

23 “Fairness prevents a party from disclosing facts beneficial to its position
 24 while refusing to disclose, on the grounds of privilege, related facts adverse to its
 25 position.” *General Electric Co. v. Hechst Celanese Corp.*, Civ. A. No. 87-458-JRR,
 26 1990 WL 154218, at *5 (D. Del. May 8, 1990). In its most recent filings, CAC has
 27 made clear that it intends to do just that. Throughout discovery, CAC has refused to
 28 produce or permit witnesses to testify about attorney-client privileged

1 communications, claiming that it does not intend to pursue at trial any arguments
 2 that rely on privileged communications. But its conduct *after* discovery contradicts
 3 that assurance. Although CAC has now withdrawn its affirmative defenses that rely
 4 on its purported “good faith,” it continues to pursue arguments and make affirmative
 5 statements about the company’s state of mind at the time it applied for the ‘807
 6 Patent and decided to sue Westlake for infringement of that patent. And the law is
 7 clear that a waiver results not merely when a party relies on a formal advice of
 8 counsel defense, but *whenever* a party “voluntarily injects into suit a question that
 9 turns on state of mind.” *Regents of Univ. of Cal. v. Micro Therapeutics, Inc.*, No. C
 10 03 05669 JW (RS), 2007 WL 2069946, at *3 (N.D. Cal. July 13, 2007); *see also*
 11 *Cox v. Administrator U.S. Steel & Carnegie*, 17 F.3d 1386, 1418-20 (11th Cir. 1994)
 12 (affirming a district court’s conclusion that “it would be inequitable to allow
 13 [defendant] to present evidence tending to show that it intended to comply with the
 14 law, while allowing it to cloak in privilege those documents tending to show it
 15 might have known its actions did not conform to the law”); *In re Broadcom Corp.*
 16 *Sec. Litig.*, Nos. SA CV 01275GLTMLGX, SACV02301GLTANX, 2005 WL
 17 1403516, at *2 (C.D. Cal. Feb. 10, 2005) (defendants could not, without waiving
 18 privilege, “assert good faith based on an expectation [their] lawyers would tell them
 19 if anything illegal was happening” “[r]ather than simply deny[ing] scienter”).

20 The rule that a party may not affirmatively introduce evidence relating to state
 21 of mind without waiving privilege has been applied in situations nearly identical to
 22 the one here: the defense of a patent’s validity in response to arguments that material
 23 information was withheld from the PTO. For example, in *General Electric Co.*, the
 24 court considered nearly identical facts. In response to a patent infringement suit
 25 brought by GE, the defendant counterclaimed, alleging that the patent was invalid
 26 because GE had defrauded the PTO by concealing an earlier experiment relating to
 27 the patented product. 1990 WL 154218, at *3. In response, GE introduced testimony
 28 from two doctors involved in the patent application denying that either of them had

1 recalled the prior experiment at the time of the application and that, in any case, they
2 would have considered the experiment irrelevant. *Id.* at *7. Neither doctor testified
3 that they had relied on attorney advice. Nonetheless, the court ordered the disclosure
4 of any attorney communications involving the doctors, citing the principle that “a
5 party should not be permitted to testify about its state of mind at the time allegedly
6 privileged communications occurred, without pointing to the nonprivileged evidence
7 to substantiate its claim or allowing the opposition to discover the privileged
8 communications themselves.” *Id.* at *8.

9 Likewise, in *Genentech, Inc. v. Insmmed Inc.*, 234 F.R.D. 667, 673 (N.D. Cal.
10 2006), the court held that a patent-holder had to waive its privilege in order to
11 present evidence that the patent’s inventor did not recall undisclosed prior art at the
12 time of the patent application and that the prior art “concerned a different field.”
13 Again, even though the inventor did not expressly rely on the advice of counsel, the
14 court found that his “testimony about his likely state of mind and the fact that he
15 would have considered the subject prior art irrelevant provides something more than
16 mere denial of intent” and required waiver. *Id.*

17 *General Electric* and *Genentech* plainly establish that in order to make
18 affirmative arguments about its state of mind, CAC must waive privilege. Westlake
19 has alleged that CAC defrauded the PTO by failing to disclose pre-2001 sales or
20 uses of CAPS in its application for the ’807 Patent. As it has made clear throughout
21 discovery and in its various summary judgment filings, Westlake intends to prove
22 that CAC’s deceit was intentional by showing that (1) the pre-2001 sales or uses of
23 CAPS were not disclosed to the PTO; (2) any reasonable attorney practicing before
24 the PTO would have disclosed that information regardless of whether or not they
25 believed it would have been fatal to the patent application; and (3) CAC’s attorneys
26 were aware of the on-sale bar and understood that prior sales dating more than a
27 year before the patent application could result in the application’s denial.

28 In response, CAC has not simply denied Westlake’s allegations—for instance,

1 by offering evidence that it did, in fact, disclose the relevant facts to the PTO or that
2 reasonable attorneys practicing before the PTO would have chosen to conceal those
3 facts. Instead, CAC has argued that its employees sincerely believed that (1) the pre-
4 2001 uses or sales of CAPS did not trigger the on-sale bar to patentability because
5 they were experimental and (2) they did not need to disclose those uses or sales to
6 the PTO because they considered those uses experimental. The problem with this
7 defense is that it is *undisputed* that CAC consulted with its lawyers concerning the
8 patentability of CAPS *several times* before filing its patent application. Since CAC
9 has chosen to withhold that information, no account of CAC's state of mind as a
10 company could possibly be complete without understanding exactly what CAC
11 learned from its lawyers and how it elected to consider that advice.

12 If CAC wants to affirmatively paint a picture for the jury about its
13 understanding of the law and its belief in the legality of its conduct before the PTO,
14 it cannot do so without disclosing the contents of those communications. *See*
15 *Belmont Textile Machinery Co. v. Superba, S.A.*, 48 F. Supp. 2d 521, 523 (W.D.N.C.
16 1999 (a party relying on attorney advice "must either (1) rely on such advice as a
17 defense and thereby waive the attorney-client privilege as to the entire subject area
18 or (2) relinquish the advice-of-counsel defense"). And because it has now deprived
19 Westlake of the opportunity to review that information and question its witnesses
20 about their understanding of their legal obligations, CAC's decision to maintain the
21 privilege means that it should no longer be allowed to introduce evidence relating to
22 its state of mind. *See, e.g., Applera Corp. v. MJ Research Inc.*, 303 F. Supp. 2d 141,
23 143 (D. Conn. 2004) (precluding introduction of testimony that would have required
24 an earlier privilege waiver); *Mobil Oil Corp. v. Amoco Chems. Corp.*, 779 F. Supp.
25 1429, 1485 n.43 (precluding introduction of attorney opinions based on party's
26 "failure to clearly waive the privilege before the close of discovery").

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1 **IV. CONCLUSION**

2 For these reasons, the Court should enter an order prohibiting CAC from
3 affirmatively arguing, suggesting, or presenting evidence regarding its state of mind
4 in connection with the '807 Patent application or its decision to sue Westlake in
5 2013.²

6 DATED: October 31, 2017

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25 ² In the alternative, the Court should reopen discovery and require CAC to produce all
26 responsive documents it previously withheld as privileged. *See In re Broadcom Corp. Sec.*
27 *Litig.*, 2005 WL 1403516, at *3 (C.D. Cal. Feb. 10, 2005) (denying motion in limine to
28 exclude similar evidence but instead reopening discovery and ordering disclosure of
materials previously withheld as privileged).